



# Opalesque Roundtable Series '16

# FRANCE

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# Editor's Note

## Race for Alternative Assets is going on in France

Given that we're in a "yieldless" world, also in France the race for alternative assets is going on. While in the past, "hedge fund" has not been a very popular word here in France, what we are seeing right now is that the **sentiment is turning more positive** for some strategies, especially everything which is systematic or quantitatively driven. There is also an increased demand for advice from institutions, and insurance platforms and wealth managers have lifted **UCITS funds to make up 50% of retail portfolios**.

But, the volatility post Brexit has heavily impacted many investment strategies, and this Roundtable discusses the winners and losers. How have investment managers, for example systematic strategies, adapted their exposure or systems before the vote?

Another Brexit effect is that **investors as a whole are holding back** and almost nobody is taking any bets from an investment standpoint. This is particularly unfortunate because already since the beginning of 2016 there has been turmoil in the market, and many investors have been sitting on the sidelines since then. Another consequence of that vote is that Roundtable participants **don't see interest rates going up anytime soon**.

## Regulators insist on UK compliance during transition period

Brexit is not there yet, and there is still a lot of uncertainty. **During a transition period, many regulations come into effect and must be implemented**, like for example MiFID II and PRIIPs: What will be the status in the UK for these new regulations? Do they need to invest and comply? The French regulator's view is that different market participants need to have the **same rules when they are playing in Europe**; this also includes the UK during the transition period. And what will be the status if they are going out of Europe? Also, given that the UK is the country which has the most exceptions, *it's one thing granting an exception when you are in compared to granting an exception when you are out...*

## Direct Lending booms

Also in France there is a lot of activity and investor interest in direct lending. **Almost every type of investor wants to gain first knowledge in this space and then start deploying capital in substitution of more traditional fixed income assets**. For instance, insurance companies are investing in direct lending because they need to invest in relatively safe fixed income proxy assets and at the same time they want to show to the public opinion that they are financing the economy. Private banks are also forced to step into this asset class as their largest clients push them to do so.

## French regulator aims to be ahead of the curve

The French regulator AMF aims for a good balance between investor protection and innovation, trying to **"give visibility on the regulatory status of the innovation on a very early stage**. *We do prefer to work even on a draft format with the aim to give guidance and visibility very soon to the financial institution and to the investors in these institutions.*" This is very supportive for the local industry. Already two years ago, for example, France created a completely new regime for crowdfunding where investors can grant loans to SMEs, and now the AMF has issued a wholly new guidance concerning **asset managers originating loans** instead of investing in loans originated by banks. France will be one of the first countries to have a regime that is completely clear on what an asset manager can do on direct lending.

The Opalesque 2016 France Roundtable took place in June at the Paris office of Eurex with:

1. Xavier Parain, **Head of the Asset Management Department and Deputy Secretary General, AMF**
2. Gilles Guerin, **CEO, BNP Paribas Capital Partners**
3. David Lenfant, **Managing Partner, Laffitte Capital Management**
4. Philippe Paquet, **Managing Director, NewAlpha**
5. Nicolas Kageneck, **Senior Vice President, Eurex**
6. Robert Baguenault de Viéville, **Co-Founder, KeyQuant**
7. Steeve Brument, **Head of Systematic Funds, Candriam**
8. Tristan Grué, **Founder & CEO, Bolden**



This Roundtable also discussed:

- Which strategies will do well with Brexit and its potential aftermath?
- Will mid-sized asset management players disappear over the medium or long-term?
- Why the Brexit vote had made valuations of UK-based FinTechs very questionable
- What's the right way to regulate FinTech?
- What will happen to FinTech when rates and defaults are going up?
- Why is France the first country to domicile the first three ELTIF funds?
- Shrinking liquidity: Not only have volumes shrunk, but also order books in the most liquid markets have become thinner as well. How do funds and investors deal with this?
- Are ETFs, as they settle end of day, moving the market from intraday-pricing to close-of-business pricing? What's the impact of this on both the volatility and on the whole price creation process?
- What are the benefits of Eurex' weekly Bund Options?

Enjoy!

Matthias Knab  
Knab@Opalesque.com

## Participant Profiles



(LEFT TO RIGHT)

Matthias Knab, Tristan Grué, Robert Baguenault de Viéville, Steeve Brument, Xavier Parain  
Nicolas von Kageneck, David Lenfant, Gilles Guerin, Philippe Paquet

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# Introduction

## **Philippe Paquet**

NewAlpha Asset Management

My name is Philippe Paquet. I am a Managing Director of NewAlpha Asset Management, a specialty investment manager based in Paris. NewAlpha's mission is to *create the link bridge between institutional investors and innovative entrepreneurs in financial services*, whether they are a startup investment manager or startup FinTech companies. Since launch, NewAlpha has concluded 66 strategic partnerships and invested more than 1.2 billion euros in seed and acceleration capital with French and international investment management boutiques.

## **Steeve Brument**

Candriam Investors Group

I am Steeve Brument, I am in charge of systematic strategies at Candriam Investors Group. Candriam is the European foothold of its parent company New York Life Investment. We are a multi-specialist asset manager and manage roughly \$100 billion, which includes 10 billion in alternative. Candriam is a pioneer in managing liquid alternative UCITS funds.

## **Xavier Parain**

AMF

My name is Xavier Parain. I am working for the French Regulator, AMF, where I am Head of the Asset Management and in charge of the authorization and ongoing monitoring of asset managers and funds.

In France, we have a very diversified landscape of asset managers and 12,000 funds, a large part are alternative funds with a very large range of strategies, including real estate or private equity funds.

## **Nicolas von Kageneck**

Deutsche Börse Group

My name is Nicolas von Kageneck, I am based in Paris where Deutsche Börse Group runs an office since 1999. In particular, I take care of the business development of Eurex Exchange, known for its benchmark derivatives like Bund, Bobl, Schatz or the EURO STOXX50® Futures and Options. Together with my colleagues we manage our sell side relationship with the big French Tier 1 banks as well as brokerage firms, acting as our Exchange Participants. We develop derivatives products in all asset classes, most recently also in the FX space as well as other new products such as Total Return Futures on benchmark indexes. We have also developed a strong relationship to the buy side community since a couple of years as natural users of our products and services.

## **David Lenfant**

Laffitte Capital Management

I am David Lenfant, one of the Founding Partners of Laffitte Capital Management. We are part of the *new generation of fund managers coming from prop trading operations* which has bloomed 10 years ago. Our team was formerly managing a EUR 10 billion book for a French Bank, focusing on dividend, index and merger arbitrage. In 2007 we decided to set-up our own company focused on liquid alternative UCITS funds to offer our expertise to a wide range of clients. We are managing two funds: a pure merger arbitrage fund and a multi-arbitrage fund which gather all our strategies.

## **Robert Baguenault de Viéville**

KeyQuant

My name is Robert de Baguenault de Viéville. I am co-founder of KeyQuant, a CTA based in Paris. Raphaël Gelrubin and I created KeyQuant in 2009 and we now have a strong track record of more than six years whereby we have been outperforming most of our peers. We manage \$180 million.

## **Tristan Grué**

Bolden

My name is Tristan Grué, CEO and Founder of Bolden. Bolden is an online lending marketplace providing fast and flexible financing to small businesses and attractive yields to retail and institutional investors. Bolden is a FinTech that we launched in 2014 and started operating in 2015. On our first anniversary, we've originated loans for a wide range of small to mid-size businesses in France and have a track record with zero default or payment delays to date.

Our positioning today is to allow retail investors to directly lend to SMEs on the platform, but we are also talking to a lot of institutions to actually co-invest alongside retail investors.

Our development is very fast. It's a growing industry as there's a significant need in France for working capital loans and medium term development loans for SMEs. We are positioning ourselves as a complement to banks and sometimes as an alternative.

**Gilles Guerin**  
BNP Paribas Capital Partners

I am Gilles Guerin. I am CEO of BNP Paribas Capital Partners, which is the alternative manager selection platform of BNP Paribas. We have about EUR 7 billion assets under management and advisory services. We provide a full range of services to institutional investors, spanning from pure advisory, where we are recommending managers, whether it's a hedge fund manager, absolute return, or private equity, down to dedicated multi-management mandates, and obviously funds of funds.

# 70

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**Eurex Exchange – the home to the euro yield curve.**



Matthias Knab

Let's address first the obvious, which is Brexit. What are your views? What does Brexit or the Brexit vote mean for France?

Also, and this is a question for the three fund managers here, how has your fund coped with the Brexit vote? I know that some managers took down their exposures to a great extent, and I have also heard that some managers ran into an open knife as they took off their currency hedges just the day before the vote, given that all polls were then pointing towards a victory of the remain camp.

**Gilles Guerin:** I think there are short-term and medium to long-term aspects. Over the medium to long-term, I am not so sure personally that Brexit will actually occur. I think it's still up in the air, and until the UK has invoked the famous Article 50, it's not happening. Let's face it, they have the freedom to do it, but so far, the UK is still part of the EU, and we should also keep in mind that already now the UK has a lot of exceptions to the common EU law that they use. So as soon as they file out, then the question will be what happens to those exceptions?

I would not be surprised if a good amount of time will pass before that actual filing, if it ever happens. Within Europe, the larger and core countries like France, Germany, Netherlands etc. may have the willingness to kind of buy time for the UK, to either reconsider or try to find a way out.

It will also be interesting to watch the social pressure that is building up through the social networks in the UK and that petition for a second vote. What if that 4 million petition becomes a 10 million petition or 15 million petition, what will happen then? Does it open the door for potential revote? We don't know.

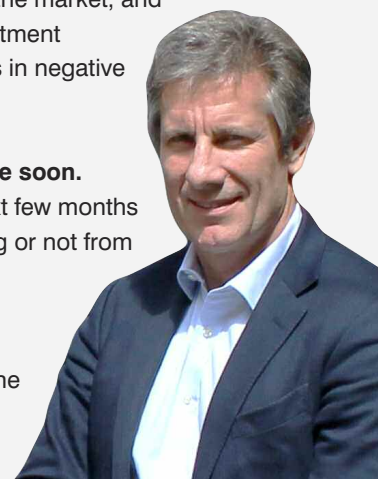
Remember that before the Brexit, everybody was basically believing and saying that it wouldn't happen. They were saying, "It will be close, but it won't happen," which probably led to a lot of people in the UK to think, "Okay, *I can put in my protest vote without really enduring it.*" But now the leave side has won and they are not so sure. My belief is that Brexit is still up in the air, though I may be completely wrong.

On the short-term, what we have seen over the past few days, is a lot of dispersion. There is a lot of volatility in the market which impacts heavily many strategies, because the correlations are high again. Most of the equity strategies are now heavily correlated, so **almost all long/short equity funds struggled while CTAs and some global macro basically had a good time.**

Another short-term consequence is that **nobody will take any bet from an investment standpoint, so getting an investment decision from an investor is extremely tough right now and for the next two, three months.** This is particularly unfortunate because already since January 4th this year there has been turmoil in the market, and **almost everybody has been sitting on the sidelines since then.** This means that most investment decisions have been postponed for six months now, and this when cash rates are more or less in negative territory.

Another consequence of that vote is definitely that **I don't see interest rates going up anytime soon.** There is a cost of opportunity for not investing, and I think it will be interesting to see in the next few months how things will further unfold, both whether or not there is a revote, and whether there is a filing or not from the UK. Those are the two critical questions.

Other questions are how long will people wait before they invest again, and how long will the current volatilities that we are seeing today last with markets up 3% and then down again 4% the next day.





**Xavier Parain:** From the regulatory side we have a lot of questions on Brexit, even related to the regulatory short-term consequences. During the transition period, the UK is a member state of EU and all the regulatory standards for UK are exactly the same as for other parts of Europe.

But during transition period, we have a lot of new regulations to implement. For example in the next two years we have MiFID II or PRIIPs to implement – what will be the status in the UK for these new regulations?

PRIIPs stands for “packaged retail and insurance-based investment products”: the new and important regulation for retail investor documents. The new key investor documents will be very different from what we have on the UCITS side at the moment. PRIIPs include new methodologies to implement risk guidelines, and new methodologies to calculate the cost of the strategies. The market participants, the asset managers need to invest to create this new document. So, again, *what is the status for the industry in UK? Do they need to invest for creating this new document for just one or two years or will they have an exemption?* Our view is that of course different market participants need to have the same rules when they are playing in Europe; this includes UK professionals during the transition period.



A lot of questions exist regarding the end of the transition period. *What will be the status if they are going out of Europe? Will the new status be a third country regime, and EEA regime or something completely new? What are the regulatory consequences for the existing products and passports?*

**Steeve Brument:** I totally agree with Gilles that Brexit is not there yet, and as we speak there is still a lot of uncertainty.

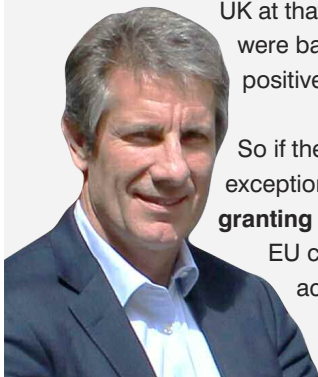
And Gilles also pointed to the key question, which is, will the UK keep its privilege towards Europe if they go out? *Given that the UK is the country which has the most exceptions, it seems that they will lose some bargaining negotiation power with other European countries.*

Regarding your question what did we do in terms of fund management, our strategies are robust, systematic and they have been through many markets configuration since 2007, so we almost never have to unplug or diminish exposure because of exogenous reasons. Lack of liquidity or the regulation are among the reasons that could push us to intervene.

**As a trend follower, we think the future looks pretty bright for us.** There will be market moves and high volatility. High volatility very often brings opportunity for us and we already started to benefit from those trends. Will they reverse or not? I would say we are a bit agnostic on that question, but in an environment like we have now, it's really **business as usual** for us.



**Gilles Guerin:** Coming back to the exceptions and accommodations towards the UK, they were of course put in place for the UK at that time basically because everybody wanted the UK to be part of the EU, and to some extent those were backed by the people as everybody wanted Europe to be strong, and so having the UK in was very positive.



So if the UK now invokes the Article 50 and leaves the EU, I think it will be very difficult to keep those exceptions. The political pressure in France, Germany and Netherlands will be huge, because **it's one thing granting an exception when you are in compared to granting an exception when you are out.** Then the EU could run the next risk because all the extreme parties across Europe will basically say, if Britain has achieved that, then we should get out of Euro as well, which will of course make the crisis much bigger.



I think that's where the UK will be at risk and they are starting to realize that if they go out, a lot of those exceptions could be considerably diminished.

**Robert Baguenault de Viéville:** We do not think that the UK will leave the EU, I join Gilles on that. We are now seeing that Scotland wants to block the Brexit. The Prime Minister of Scotland said that she could ask for a new referendum on the Scottish independence if Brexit really happens. In one way or another, the UK will stay in the EU, that is our personal point of view at KeyQuant.

As with Steeve, we did not manually change anything in our trading and strategies, so Brexit was really business as usual. For some months before the vote market prices displayed a number of good trends, so we were in fact already long USD and long bonds and did not decrease the exposure before the Brexit. In fact, all the performance we made on the Friday was exactly the loss we had over the prior three days when everyone believed that that there would be a "Bremain".



### Steeve Brument

The reason why we do not deleverage our strategies is that our investors are invested with CTAs because we are typically one of the strategies that benefits from exactly that kind of event.

Going in the referendum there has been a lot of interest from investors for our strategy, knowing that this could lead to a favorable environment.

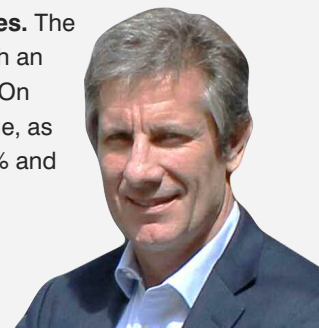
**David Lenfant:** Actually, since 2008, financial markets entered a new paradigm. Many asset prices are driven by the action of central banks and volatility arises when political decisions are expected and sometimes do not proceed as expected. The UK referendum and finally the Brexit is a good example of that. While the central banks are supposed to bring more stability to the markets, the political uncertainties bring less visibility and more volatility. I think that we are going to experience more and more volatility in the coming weeks and months due to this lack of visibility.



**This environment is a great opportunity for alternative strategies.** In a period of higher volatility and very low yields and even negative interest rates, I think that alternative managers have to prove that their processes add value to their investors. At Laffite Capital we work every day to preserve the capital of our investors and to deliver to them good returns in a low yield world.

**Gilles Guerin:** Still, the markets are a challenge also for a lot of alternative investment strategies. The long/short equity space has been having a hard time actually since the beginning of the year. In such an agitated market, correlations are running high and so it's hard to find opportunities to make money. On aggregate, long/short equity is probably down 4%,5% while markets are down in the 10%, 12% range, as you know, they change every day. So far this year, the good equity long/short funds are between -2% and 0%, so it's a difficult time for long/short equity.

CTA as a group is performing well. CTAs are usually contrarian. Right now most of them are even



anti-correlated to the market, so I think they are playing their defensive role. Global macro funds have been offering mixed results.

But I think what is more important is that investors as a whole are kind of holding back. At the same time, there is **pressure building up there because investors cannot stay on the sideline indefinitely**. There's a point where you need to invest, but that time has not come yet. Recently hedge funds have had more redemptions than inflows. But across all asset classes and strategies, you can see that people are basically staying out, and that is also a big question mark to me because it's not sustainable.

**Philippe Paquet:** A sector where we see a lot of activity and investor interest is **direct lending**.

Almost every type of investor wants to gain first knowledge in this space and then start deploying capital in substitution of more traditional fixed income assets. For instance, insurance companies are investing in direct lending because they need to invest in relatively safe fixed income proxy assets and at the same time they want to show to the public opinion that they are financing the economy. Private banks are also forced to step into this asset class as their largest clients push them to do so.

For everyone, the recent geopolitical events and the subsequent stress in the market highlight the need to diversify investments and if possible to avoid assets too sensitive to market volatility. Non-listed direct lending assets are therefore now looked after.

Interestingly, this space is at the crossroads of investment management, traditional credit lending and innovative 'FinTech' approaches where regulations are not yet set up. Therefore, no surprise to see new investment firms rushing into that space, while banks and established players are slow to move.



Direct lending means that you are financing your local economy and diversification means that you are financing the rest of the world.

The other trend we are noticing is the ever growing **polarization of the industry**: the large investors tend to concentrate their selection of external managers to biggest asset management firms, both in the long-only and in the alternative spaces.

In the same time, these same large allocators have now the experience and the resources to work for specific asset classes or investment approaches with smaller managers, either emerging firms or specialty boutiques already established.

And what is in the middle? My opinion is that on a medium or long-term horizon, **mid-sized players will suffer, and eventually disappear**.

**Tristan Grué:** With regards to the day to day activity of the French peer-to-peer lending industry, Brexit should not have an immediate or major impact. We lend to small businesses, so we deal with the real economy, as Philippe said, and so we are less impacted by market volatility.

I come from the pension fund world where we are used to look at the investment world from a risk premia perspective. In direct lending, especially when it's very small SMEs, investors actually don't have a beta to a particular market or a country. What you have is **credit risk premium related to a SME in a particular sector and location and an illiquidity risk premia because** the loan is illiquid. But there is **no short term beta to major financial markets**. So, whatever happens in London tomorrow doesn't really impact us.

Obviously, Bolden and the underlying SME that it finances could be impacted by the bigger credit cycle. If there is a massive downturn in France and businesses are impacted indirectly by the customers consuming less, we may see some defaults spiking up, but that again will be different to what would then be going on in the equity markets.

So in uncertain times such as those we are facing now with Brexit and its potential aftermath, my investment view is that *nimble and actively traded strategies such as global macro will do well, passive classic beta strategies will be impacted and investors who can tolerate illiquidity should focus on other risk premia which are less correlated to global financial markets and their existing portfolio, and more niche strategies such as direct lending, infrastructure debt and equity, private and mezzanine debt.*

With regards to the global FinTech industry, should Brexit happen, it will have a huge impact. In 2015, London and Germany based FinTech firms received 80% of all investments in FinTech. So the UK and London in particular are major centers and also at the forefront in terms of regulation and being able to put to market new products and in general new ways of doing things. Therefore, in the long run, the repercussions of a Brexit on that space are going to be important for most Europeans players.

At the same time this could also be positive for France as French FinTech could start gaining market shares from UK rivals. Here, we also have good access to talented IT people and excellent banking professionals, so in a way it could be beneficial for us.



**Philippe Paquet:** In 2015, NewAlpha launched a venture capital fund investing in FinTech startup companies. We are meeting with approximately 10 to 15 new companies every month. One of the things we can see is that there is a wide dispersion between valuations of UK-based FinTechs and for example, France-based FinTechs. The differential is between two and five times for companies on the same market, with the same offering, and on the same path. The difference comes from the fact that the UK companies may be two or three years ahead than the French ones. My point here is that **with what happened with that Brexit vote, obviously the valuation of UK-based FinTechs can be questionable.** I don't think that it is good for France, but certainly for the moment and short-term rather bad for UK startups.



As you know, digitalization is based on the idea that the underlying market has no limits, no borders. So if you immediately set up again new borders, it raises the question about valuation.

While there's no point to applaud the UK's decision, and if you assume that France will always be a part of EU, then I think the Brexit is not such a bad event for our companies here, local managers and local FinTechs.

### Gilles Guerin

In peer-to-peer lending, the US has led the way, the UK is probably the most advanced in continent of Europe, and then there is the rest of Europe. FinTech, as it is developing now, is a fairly new industry, and we have not had the experience of strong recession in that space. And so the question to you is, should Brexit lead to recession, maybe a strong recession in the UK, peer-to-peer lending will also be strongly impacted. I was wondering about your thoughts, Tristan, what would then be consequences for the rest of Europe, because they are more nascent in that space?

**Tristan Grué:** There's currently a lot of debate about the space in terms of credit risk, reputation, guidelines and governance. Marketplace lending is a new industry in which governance and disclosure standards must remain high. The recent example of Lending Club, with the departure of founder and initial CEO Renaud Laplanche and a number of its senior staff reminded everybody of that fact. From what has been disclosed, the issue was related to inappropriate allocation of loans, but not to the underlying credit quality of these loans. It is worth noting that meanwhile Lending Club released strong quarterly results. In my opinion there is no concern about the standards of the industry as a whole or its ability to source borrower of good quality.

**The sector Bolden operates in is called FinTech, but really at the end of the day we are asset managers. So in my opinion, we need to be highly regulated with a regulation that is adapted to our activities.**

I also think that too many people have focused too little on the finance aspect and have spent too much time on the technological aspect in order to be able to lend very fast. But at the end of the day, whether you call what we do direct lending, peer-to-peer lending or microcredit, stringent credit assessment is the key in good times or bad times.



**Gilles Guerin**

So, what will happen when rates and defaults are going up?

**Tristan Grué**

Well, at Bolden we calibrate default expectations in our models and we remain highly selective with less than 1.6% of companies obtaining a loan, from 20-60 demands per day.

So, you are right, it's a young industry, and we don't know exactly what realized default rates will be if there is a strong recession. Our models and various expert analysis from different data providers suggest 2-3% default rates per annum in a normal environment and 7-9% in a stressed environment.

**Gilles Guerin**

There could be a kind of a dichotomy between UK and the rest of Europe, because the recession may be stronger in the UK than it will be in the rest of Europe.

And one could make the point that in case that the UK is going down, it could be positive for France, Germany, Netherlands, etc., especially in the financial industry. And even US companies that have traditionally seen UK as a port of entry towards the European Union may change their views.



**Tristan Grué:** With regards to the peer-to-peer lending industry, there is actually a good example in Funding Circle. They were launched in 2010, so they still were exposed to some of the late repercussion of the 2008 and 2009 crisis years, and their default rates reached 5.5% per annum, where they were serving 7% per annum of returns. So net-net you would still have made a 1.5% annual return.



**Xavier Parain:** We discussed on FinTech and direct lending, so I just want to update on what we are doing at the regulatory side, because we are trying to find a good **balance between innovation and investor protection** on these topics in France.

Direct lending, as you explained, Tristan, also concerns the retail investor. We created a completely new regime for crowdfunding in France two years ago where investors can grant loans to SMEs. But now we are implementing also a completely new guidance concerning asset managers to originate loans instead of investing in loans originated by banks. I believe that **France will be one of the first countries to have a regime that is completely clear on what an asset manager can do on direct lending**. This new guidance was published few days ago, so it's very new. The demand is strong on this topic; we have already some asset managers authorized under this guidance to do some direct lending.

We like innovation, and we put in place a new team that is in charge of liaising with asset managers and other financial institutions on innovation, specifically on FinTech, to ensure that we have resources with knowledge and with the appetite for these new techniques.

This team is working closely with the prudential regulator and we have more than 20 officers working on FinTech.

For me, the growth of this sector is also linked to the very low interest rates environment and increasing use of digital solutions. Of course, you as an asset managers are trying to find new techniques, new ways of creating performances for your clients, and our view as a regulator is to facilitate this business while keeping in mind investor protection as well. The way we are doing this is to have direct communication with the asset managers.

So our approach is quite different from UK where they have the so-called "regulatory sandbox". **The French approach to give visibility on the regulatory status of the innovation on a very early stage**. We do prefer to work even on a draft format with the aim to give guidance and visibility very soon to the financial institution and to the investors in these institutions.

Summing up, we aim to facilitate innovation and are engaged to work on some very innovative things. You can see that France is sometimes ahead of a lot of European countries, like for the new format of European Long-Term Investment Funds (ELTIF). We are the first country to domicile the first three ELTIF funds, so also here you can see that financial innovation is more than welcomed in France.



**Tristan Grué**

Xavier, the guidance for managers you had mentioned, is it more on the asset manager investing directly or is this for a fund? And if it's for a fund, which fund apart from ELTIF?

**Xavier Parain:** This guidance on direct lending concerns ELTIF funds and also professional funds, and it explains that an asset manager can be authorized to originate loans – direct lending – and the requirements for this authorization, for example the experience of the team in direct lending.



We have already one asset manager authorized for this and a lot of asset managers coming from the FinTech side interested by this innovation, but also traditional asset managers are thinking about originating loans.

I also fully agree with you that there is demand and a strong appetite for direct lending, also because it can be a performing asset and an investment uncorrelated with traditional asset classes.

**Xavier Parain:** Our guidance, as French regulator, is covering only French Funds. But it's also a guidance on the programme of activity of French asset managers. This enables French asset managers authorized to originate loans to do this in foreign funds if the local law allows them to do this.

But let me also add here that we have a lot of regulatory initiatives on French funds, to **increase the competitiveness of French funds**. We created a group which we called in French "FROG", headed by Didier Le Menestrel who is one of the key leader of the asset management industry in France. We are keen to have a lot of new regulatory tools or new initiatives on French funds to be sure that they are of course robust on one side and are investor protection-oriented, but also offer good flexibility for your clients and for the different strategies on the asset managers' side.

We will publish very soon a range of different initiatives and new guidance, including a premarketing guidance to clarify what is the view of the French regulator on premarketing rules for institutional investors.



### Matthias Knab

Philippe, NewAlpha has been a very successful player here in France and globally, and you also have been very innovative over the years. Is there anything you'd like to add regarding the theme of innovation?

**Philippe Paquet:** Actually, I think a disruptive innovation is the right innovation at the right time for both buyers and sellers AND when investors are buying it, otherwise it's just an idea.

But thankfully, what we do see seeing investors buying now, especially French investors, is a lot of **alternative finance**, including direct lending. There is a **strong appetite** for these type of investments which has actually has started with the most sophisticated investors, so at the top of the pyramid. Gradually other investor types are getting involved, of course with smaller amounts, but it's gaining momentum.

So while there are different approaches to direct finance, as I said before, it's generally an investment that investors can promote in front of their shareholders, clients and all their stakeholders. They are not investing with a speculative trader somewhere in New York or wherever, but they are investing with sense and meaning, which is a key point.

In this context, we also see that the concept of **SRI is gaining momentum**, while regulation is pushing the various players in the value chain to move into that direction. There are many shops setting up and by now almost every investment manager has a product in its range that they can tag with SRI or ESG. You can also see that the ecosystem around SRI keeps building up with advisers, rating shops, etc. It's a strong move which I think will for sure not stop any time soon.

I also see another development in France. While in the past, "hedge fund" has not been a very popular word here in France, what we are seeing right now is that the **sentiment is turning a little more positive for some strategies, especially everything which is systematic or quantitative-driven**.



We have some clients who in the past were reluctant vis-à-vis that group of strategies, even up until a few months ago. And now they are changing their views. They are interested in smart beta, factor investing, risk premium investments, etc. All these quantitatively-minded strategies are getting very popular.

**David Lenfant:** This is true. We also note that there is more and more appetite for alternative investments in France. I am talking about liquid alternative UCITS, as this is our business, not direct lending or FinTech.

The key point here relates to the role of the insurance platform in France. **80% of the retail money is invested in these insurance platforms**, and till now, most of the money was invested in contracts called “Euro Funds”, mainly in bonds. These Euro Funds delivered in the past yields between 3% and even 5%. It took longer than expected, but finally, and mainly due to the pressure from Banque de France, the expected return for the investors got lower and lower. For 2016 the yield will be around 2% and maybe lower for some contracts. Now, **almost all wealth managers propose a list of alternative UCITS offering uncorrelated performance, capital preservation** and targeting something like we do at Laffitte Capital, 3% to 6% or 7% annually, with limited volatility.

So five years ago, a typical allocation for a life insurance contract for retail investors was 80% in Euro Funds and 20% in traditional and long-only UCITS – equity or bonds. In today’s market, we see that at least 50% of the allocation is invested in UCITS with a growing part in alternative UCITS and only 50% in the Euro Funds. This is very positive and an opportunity for us.

I also agree with Philippe’s observation that we see demand either for big players or for boutiques. The reputation of the French asset management boutiques is pretty good in Europe. We are marketing our funds outside France and 50% of our clients are based outside France. Globally foreign clients acknowledge that French managers are resilient in challenging times such like in today’s markets.

The only one challenge we sometimes face is the idea foreign investors have on fiscal laws for funds in France. We have to explain that French UCITS are exactly the same as Luxembourg ones. I am wondering, how can we change or correct this wrong perception?



**Xavier Parain:** I am obviously the financial regulator and not the tax authority, but I can confirm that now and for more than 40 years there has been no tax in French funds. So actually, the facts speak differently because in some other European countries, there are some taxes in funds.



Another important aspect on French funds, in terms of investor protection, is the fact that our regulation is very stable and investor protection oriented. Even more, our framework was challenged in front of Court of Justice, but investor protection prevailed. We have a very unique and strong track record where clients holding French funds were reimbursed during Madoff or Lehman times where some assets were completely lost by some managers or some custodians. In those unfortunate cases, the **clients holding French funds were reimbursed.**

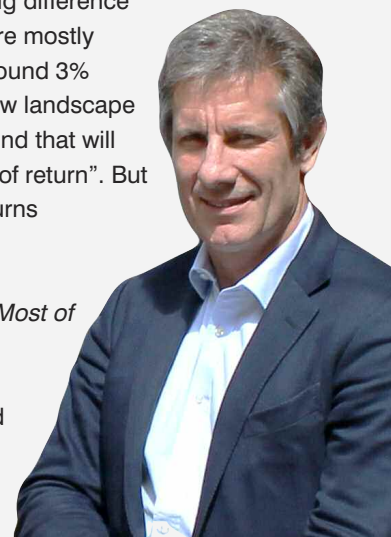
**Gilles Guerin:** What we see in the French marketplace is that in general, both on the institutional side as well as on the retail side with the Euro Fund, French investors are dominated by fixed income mentality. They may have 70% to 90% invested in fixed income. Those interest rates are going down, and so I think there’s a necessity to increasingly diversify. The move for that diversification was in assets that are offering a yield and hence the success of real estate, and also infrastructure that has been extremely popular in France for institutional investors. And as we discussed, private lending now is starting to kick in, and I think all those areas require a fairly sophisticated expertise and the same goes for hedge funds.

After 2008 most institutional investors across the world have started to invest directly into so-called alternative managers. But there is a cost attached to it which is you need to start first to have quality people that can analyze what is a PE fund, what is an infrastructure fund, what is a private lending fund, and what is a hedge fund? And now, because of this cost pressure and yields going down, we are starting to kind of see the peak of that trend where investors are increasingly saying, “**We need help for selecting the right manager.**” So there are illiquid investments, which are very sophisticated, and there’s a liquid world where, as Philippe pointed out, investors have a choice between the big boutiques and the small ones. And obviously, if you choose a small one, you have a bigger risk from a carrier standpoint. If you are the head of a pension plan or even if you are a financial planner and are selecting a small firm with just 200 million, you are taking a bigger risk.

But my point here is that to some extent, there is an **increasing appetite for advice**, for advisory services in any shape or form. There are also other drivers for that. If you look, for example, in the liquid space and analyze the kind of volumes we previously had in those markets, they have now noticeably come down. This means that if you are a large firm with a big fund in an absolute return strategy, it’s hard to make money because moving things around has become tough. So if you want performance, you need to go with a smaller manager, and that also requires you to have more resources dedicated to analyzing managers. Sometimes you can do those in-house and other times you have to rely on an expert.

The other thing that has significantly matured is the **investors’ expectation**. There is now a big difference between the illiquid and the liquid investments, and hedge funds, whether you like it or not, are mostly dealing with liquid instruments. And therefore they are now expected to return somewhere around 3% above LIBOR, which is zero at the moment. That is the expectation. A consequence of this new landscape is that now some institutions may say, “It’s not worth the risk. If I have allocation to a hedge fund that will give me a 3% net return, it’s too much complexity, and too much cost is at stake for that type of return”. But the ones who still want exposure to hedge funds strategies want liquidity and have those returns expectations.

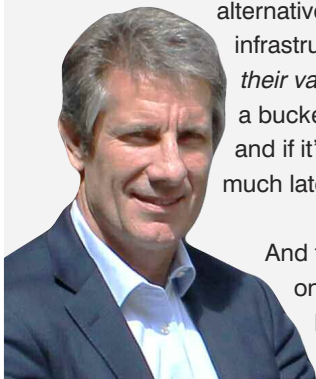
That’s behind the success of alternative investment managers in France and across Europe. *Most of the hedge fund strategies that have been raising assets have been doing it through UCITS*, precisely for that reason and because it’s aligned with the fixed-income mentality I mentioned before, which is “I want 2% or 3% and I want liquidity, I don’t want to be caught into gates and such things.” Even though you could argue that UCITS can have gates, but that’s another discussion.



**Matthias Knab**

You mentioned some investors are not going into hedge funds or liquid alternatives because it’s too cumbersome or too risky to do that for just a 3% return. I wonder, how do those investors invest, what does their allocation look like?

**Gilles Guerin:** Well, I do think that **the race for alternative assets is going on**, there is in general an increased allocation to alternatives as a whole. And so investors that don’t want to go into hedge funds, actually pile-up infrastructure, private debt, or PE. Now, you also have to keep in mind that if you’re investing in such assets, *their valuation doesn’t move that much*. So from a career risk standpoint, you are basically putting money in a bucket that is supposed to yield you on average 6%/8%, if you are into private debt it could be up to 10%, and if it’s private equity and real estate it could be even higher, but you won’t know that before 2021 or much later.



And that’s another big change in the industry that we are seeing which is, in the 1990s and 2000s, people on the investor side were making a career in a given position. They were in charge of investments, and basically were staying there forever. But this has changed, things are not that obvious now.



Institutions do still have a long-term investment horizon, but, I would argue, the people that are making the decisions for those institutions, not always.

**David Lenfant**

We also see that there is clearly a mismatch between the capacity and liquidity of the market and the strong demand for liquid alternative funds. Therefore, **many successful funds are soft closed**. We are in a dilemma where there is so much money to invest and people don't know where to invest it. By soft closing funds our industry is reacting responsibly as they try to preserve capital and to keep their processes functional.

**Robert Baguenault de Viéville**

Let me add here that KeyQuant has a successful program that still has capacity. So we have some solutions for investors...

**Steeve Brument:** I agree on the liquidity issue, and it's more than the volume that has been diminishing, but you can also see that the **order book in the most liquid markets has become thinner as well**. That's probably a consequence of banking regulation and Solvency II, that there are less and less players.

In terms of trends, at Candriam we see a strong interest for SRI, now also from the US, which has been lagging Europe from that perspective. We get as well more-and-more the question about diversification, because, as Gilles had already mentioned, the correlations across asset classes are very high. So people ask themselves what strategies, what kind of manager, what type of investment will get their portfolios better diversified? Systematic funds can be very effective from that perspective because we do things differently and look at a whole range of factors. Market neutral funds as well have been of interest.

We also observe a shift away from the simplest index funds to ETFs that investors are using as blocks to get exposure to the most liquid assets.



**David Lenfant:** We are also seeing **more appetite for leverage**. For example, we are managing two funds, one is a pure merger arbitrage fund and the other one is a multi strategy fund. We are in a process of launching a third fund which is the addition of both funds. This fund is welcomed from our investors as they are expecting a higher return by accepting a higher leverage. Considering our strategy this is not a big issue as the leverage used will be 3 times. The demand for leverage is a recent phenomenon. You also see a lot of certificates and structured products leveraging again alternative funds.

**Gilles Guerin**

So also here I think we can see that the level of awareness and the sophistication of the investor community has increased significantly. So I think that appetite for leverage is basically kind of acknowledging something like, *"I know what the strategy is, if I want a more aggressive return, then I can borrow myself and invest more in the fund."*

**David Lenfant** ... And moreover borrow is currently cheap.

**Gilles Guerin** Right, so the investors have a better understanding of the products, and it goes back to a clear analysis of their needs and a cost analysis.

When people are coming to us for advice in selecting a manager, the main relevant point is: "If I need to do that myself, I would have to hire someone. If I hire someone, it will cost me a couple of hundred thousand, depending on the level of sophistication. How much do you charge?" That's it. Investors are asking what is it they need, and what can they spend in-house? With the level of volatility that we are seeing in the market now, with rates being where they are, with or without a Brexit, I expect that trend to continue.

**Matthias Knab** We mentioned that liquidity is affected in many markets. My question to you is, how do you deal with that? Are you changing your models? What observations do you have from the exchange perspective?

**Nicolas Kageneck:** Liquidity has always been an important issue for market infrastructures like us. When launching a new Exchange Traded Derivative at Eurex, one of the important first steps we take is to talk to potentially interested market makers for that product. It is about finding decent companies amongst our member firms to provide tight and binding bid/ask spreads for a minimum lot size. Market makers provide liquidity by absorbing temporary supply/demand imbalances, which help dampen the impact on market volatility and improve price discovery. This is what clients are more and more asking for, to be able to follow the price picture of a derivatives product on the screen, to enter or step out of a market as quickly as possible with a minimum price impact.

At Eurex, we regularly evaluate together with our exchange participants the potential onboarding possibilities of bilaterally traded (OTC) derivatives products into ETD's. This has been successfully the case in the past with Dividend Swaps becoming Dividend Futures and Options and where we have achieved good on exchange liquidity. It is presently the case with a project to launch Total Return Futures (TRF) on benchmark indexes. Since Lehman, OTC derivative markets are subject to significant change as global regulatory commitments are getting tougher, especially for banks which are facing high capital charges.



**David Lenfant:** I wanted to comment briefly on dividend futures. Clearly in this segment, the situation is getting better and better on the Eurex platform.

We saw on Friday after the Brexit vote as well as in 2008-2009 that dividends were slashed on the market. Last Friday, dividend futures went down but then the markets reacted very well and dividends recovered at the end of the day, proving that this market is more-and-more liquid and very interesting for an alternative asset manager looking for an asymmetrical asset class.

**Nicolas von Kageneck**

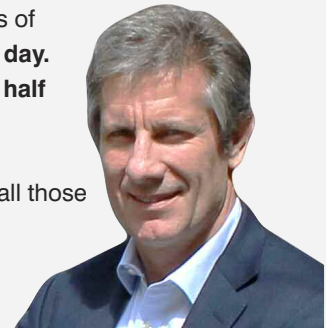
I can confirm that Friday after the Brexit vote, Eurex hasn't experienced any market disruption. Being alert that the market might face volatility jumps at beginning of the trading session, all our products were set into "fast market" mode. No erratic price movements were observed. We triggered just a few volatility interruptions as safeguards in order to ensure market integrity during continuous trading.

**Steeve Brument**

ETFs are definitely one of those mechanical things that I mentioned earlier. **There is a presumption of liquidity today in ETF which is huge.** We see all kinds of things in ETFs today, there is will to give liquidity on illiquid assets through ETF.

**Gilles Guerin:** We spoke about the rise and the demand of ETFs before, looking at the growth rates of ETFs and their volumes; we have to be aware that basically they **all ETFs settle at the end of each day.** **This is also one of the reasons why we are seeing those huge spike of transactions in the last half hour of the day.**

I was wondering what's your take on that, because as ETFs keep growing, and especially now with all those new risk factor products, I do think there are potentially unintended consequences.

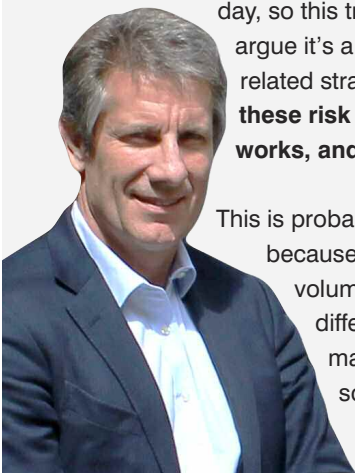


**Nicolas von Kageneck**

At Eurex Exchange, we make sure to provide consistent daily settlement prices for all our futures and options products. The same holds true for ETF's on our cash market. In terms of investment strategy, when comparing futures versus ETF's, I would argue that futures are likely to be superior for short term exposure. For longer holding periods, ETF's are probably the best product as investors avoid the roll costs. But the question was more on the pricing...

**Gilles Guerin:** Exactly, and I think there are potential distortions on the volatility, the fact that all is settled at the closing of the day, so this trading activity has a huge impact on how volatility could move, and so on. So while you could argue it's a good thing that all these new strategies and instruments like risk parity and some of those related strategies are around, it's also a fact that **when markets become too volatile and go down, all these risk strategies will basically sell risky assets and thus fueling the downturn. That's the way it works, and it's an unintended consequence.**

This is probably also a question to the regulatory side. We have to objectively examine what's happening, because we all know that while ETFs have grown and evolved over time, they did not have the same volume levels they represent today. So, in the past, these things were not an issue, but today, it's different. Now, they are so huge, and as mentioned, they are progressively replacing futures, or maybe not replace, but take a portion of that. I think it could have some impact and it could create some kind of knock-on panic at the end of the day.



**Nicolas von Kageneck**

I agree it is important that trading venues implement safeguards to ensure orderly price formation, in particular during times of stressed markets. For instance, we trigger volatility interruptions when the next potential execution price of an ETF order lies outside of predefined price corridors. Whenever a volatility interruption is initiated, continuous trading is interrupted by a call auction. These auctions have a minimum duration of two minutes and enable market participants to reflect on current market events while still being able to enter, modify and delete their orders.

**Xavier Parain**

*If the market is moving from intraday-pricing to close-of-business pricing, to a certain extent you can have an impact on the price creation process. What is a fair price of one security if everything is dealt on the close of business day? So, again, when the market is moving from intraday to close-of-business pricing, you can have **impact on both the volatility and on the whole price creation process.***

**Nicolas von Kageneck**

We all have observed it actually around the closing, and it is for sure something that has to be looked at more closely.

**Steeve Brument**

ETFs are definitely one of those mechanical things that I mentioned earlier. **There is a presumption of liquidity today in ETF which is huge.** We see all kinds of things in ETFs today, there is also a desire to give liquidity on illiquid assets through ETF.

**Gilles Guerin**

There are definitely more and more ETFs, but here's the thing. *Liquidity means there is a buyer. It doesn't imply at which price.*

**Matthias Knab**

Is any one of you working on new products or services?

**Steeve Brument:** We are actually looking at EFTs at the moment. We are analyzing what it is possible and reasonable to wrap up an ETF and what is not. We also ask ourselves questions like, "Is this ETF meant to replace traditional or alternative funds? What kind of role would ETFs play in the future investment landscape?"

What we think at the moment is that investors might be willing to buy bricks, or modules. What do I mean by that? Something very simple, getting an exposition to a particular risk or an asset class like bonds, of course, or to some very basic strategies like value or minimum volatility. We think the more sophisticated strategies will not be managed through ETFs yet.

There is a strong appetite for long/short equity. We launched a few years ago different kind of systematic long/short equities and given the market behavior since inception we are quite satisfied with the behavior of our product





**Xavier Parain:** What I can confirm is that the French market is very active in terms of new asset management companies and new products. We have **more than 600 asset management companies** now, and there are still a lot of newcomers, so new businesses are being created.



In France, you can find a very broad range of different businesses. We have small boutiques but also big players coming to the market with new ideas, including a lot of alternative new strategies. There's real estate, private equity, hedge funds, with leverage or no leverage, market neutral strategies, etc. Each day new funds are created in France, so even in this very challenging market with low interest rates, etc., we still have a significant flow of new business and new funds that are being created.

**Nicolas von Kageneck:** We regularly introduce a number of new products which are linked to our existing products. If you look for example at our Bund Options, we have recently launched weekly expiries. With such high gamma options, you can react more effectively to any unexpected market events. The same holds with the launch of a Mini-DAX future, where Eurex offers an instrument also suited for trading retailers and is expected to become a viable alternative to CFDs. As previously mentioned, we look at equity index products from the OTC space such as Total Return Swaps which potentially have the profile to become ETD's. Banks as well as asset managers clearly see the advantage to trade standardized, fungible products and face a CCP which reduces counterparty risk. Concerning our index dividend products, some of our clients asked us for quarterly expirations beside the existing December maturities.



**David Lenfant:** I just would like to mention that **our funds are still positive this year**, around 2% as of early July despite the Brexit. We have been running these funds with the same philosophy for long time, aiming to deliver positive non-correlated performance.



We are launching a third and more leveraged fund. Based on a three years live track record, it proved to deliver an annualized performance above 7% with a volatility below 4% which is not so bad in today's markets. This fund will be a weekly liquid UCITS regulated fund.

**Gilles Guerin:** That would be a nice return and also proves my earlier point that there is a lot of dispersion in absolute return and hedge fund strategies. If you look at the average performance of the alternative UCITS universe, it's basically flat if not negative over the last three years. However, If you look at the fund of funds industry or the fund of funds index, they have been adding value. So there is still a case to be made for selection and fund of funds which is based on facts.

Still, what we are seeing is less appetite for traditional fund of hedge funds but a lot of demand for either advisory or customized mandates. Also the **fee model has changed**, so instead of the 1 and 10 that traditionally was the norm for fund of funds, we have now a more customized kind of a pricing. We see usually a very low management fee combined with a performance fee which is linked with the investment objectives of the client. So there is certainly a resurgence of that.



People are coming to you saying, "If you can manage the allocation of my portfolio of managers and deliver, say, 3%, then you'll get additional fees on top of the base fee." So that's what we are seeing and how our business has developed, following the proven concepts of intelligent manager selection and risk management, which in a way have become more and more important because alternative investing has become such a diverse space. It does have value if you do it correctly.

**Tristan Grué:** At Bolden we basically have one product, and we're quite proud of it. We try not to replicate what banks and some managers do, launching too many products becoming jack-of-all-trades master of none. What we do is focus on our unique loan product by consistently improving user experience and credit models to actually lend faster and at the right rate. So it's very linked to web interfaces, UX, and APIs that we create to get more borrower-related data.

Our average loan size today is €50k with two years of maturity for SMEs with a yield of 7.5% per annum. Our typical investors are retail but we are structuring a fund right now for institutional investors.



We see demand from our investors for higher yielding products. Over time, Bolden's ability to select riskier borrowers will improve. For now, we are very selective and tend to shy away from these businesses but in the long run we may be able to include them and lend to them at higher rates.

We also see strong demand for real estate crowdfunding in France, but we are not yet equipped to respond to it. It's quite a large and popular space. One reason is that French investors like to invest in tangible assets.

But I think the way it's been structured to date hasn't been investor-friendly enough. The end investor doesn't really get what he should be paid for the risk he takes, as we would see in the UK or in the US.

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